

Fairfax County Economic Index

Volume IV, Number 12

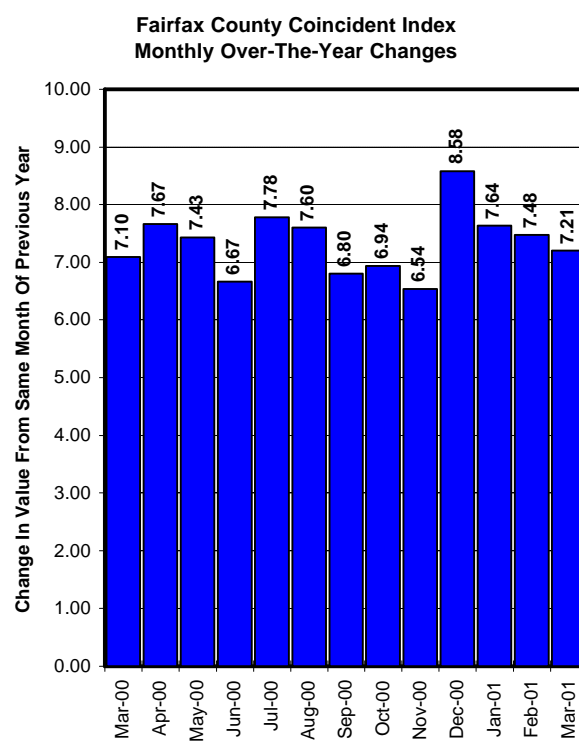
MAY 2001

Economy Rebounds In March, Outlook For Slower Growth Still Likely

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 135.3 in March for a gain of 1.0 percent. This gain reversed the Index's decline in February and extends its upward trend that dates back to mid-1996. Over the past year, the Coincident Index has increased nine times and gained a total of 5.6 percent. In March, two of the Index's four components were positive.

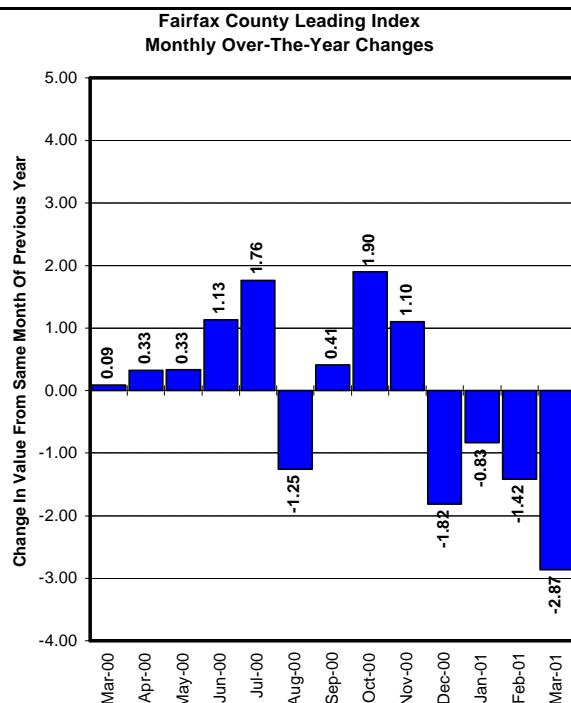
- Total employment continued to grow, extending its month-to-month seasonally adjusted trend to 62 months dating back to January 1996; and,
- Sales tax collections, adjusted for inflation and seasonal variation, were up sharply and more than offset February's decline; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down for a second month in a row; and,
- Consumer confidence decreased for the fourth consecutive month and sixth time in eight months.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, declined to 104.7 in March for a decrease of 0.85 percent. The Index's March decrease extends its downward trend to a third consecutive month. While over the past year the Leading Index has seesawed up and down, its overall trend has been lower with its value in March 2001 being



Source: Center for Regional Analysis, George Mason University.

2.7 percent lower than in March 2000. With its recent values dropping below respective same-month values in 2000, the 12-month moving average trend line has been tracking lower since peaking in November 2000. In March, four of the Index's five components contributed to its decline.



Source: Center for Regional Analysis, George Mason University.

- Initial claims for unemployment insurance increased (worsened) for the third time in four months;
- New automobile registrations declined in March for a second month in a row and for the third time in four months;
- Residential building permits decreased for the second month in a row; and,
- The total value of residential building permits declined for the second time in three months; while,
- Consumer expectations (consumer confidence six months hence) increased after declining in five of the previous six months.

The Fairfax County economy continues to expand with its current growth rate far exceeding its historic growth trend. This continuing strong performance confirms the economy's inherent strengths. Still, its leading indicators have been trending lower since November 2000 and are pointing to slower future growth. An early sign of this expected slowdown is the slight softening in the labor market and weakness experienced in the residential market

during the year's first quarter. How this slowdown plays out will depend on consumer spending as well as the performance of the regional and national economies.

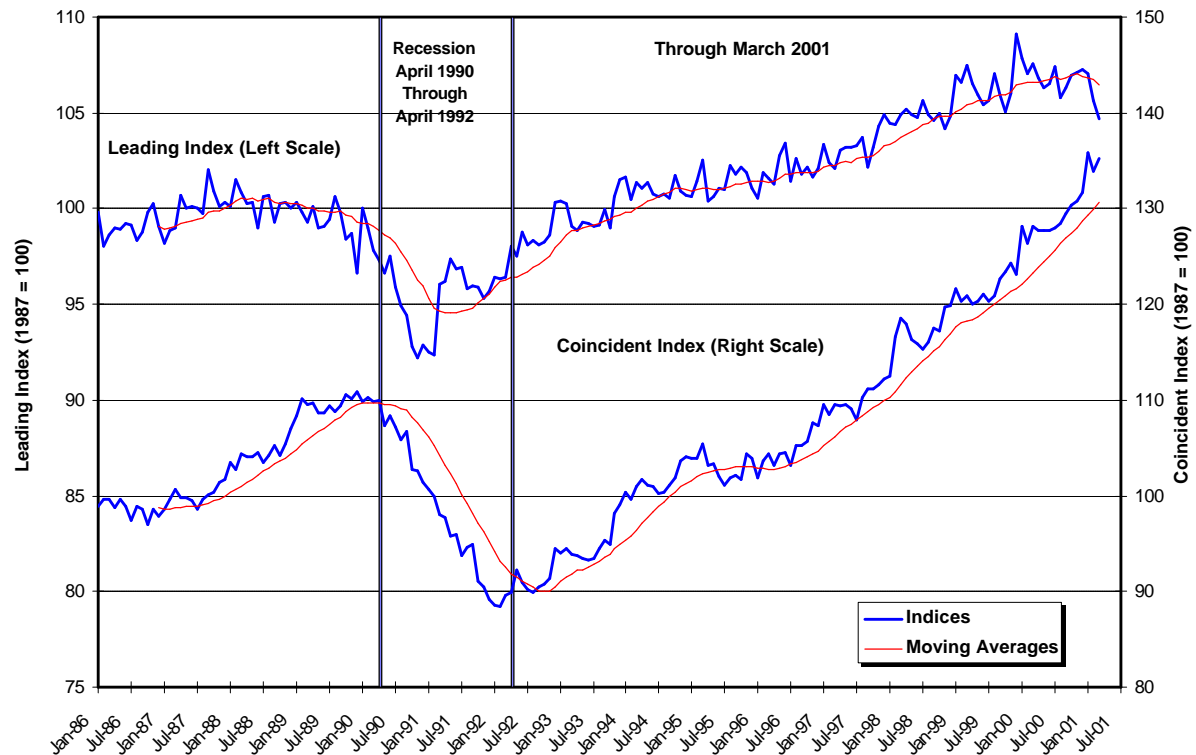
CURRENT CONDITIONS

The continuing strength of the County economy is seen in its job growth trend. Monthly over-the-year job gains in March totaled an estimated 36,577 for an increase of 7.0 percent. This gain accounted for 42 percent of the job growth in the Washington metropolitan area that also has continued to generate new jobs at a near-record level. The County's strong job growth has enabled workers being laid off as a result of the shake out in the technology industry to find new jobs and, as a result, County unemployment has remained at a record low of 1.0 percent in March, down from 1.3 percent a year ago. This strong job growth, occurring in spite of increased layoffs in the technology sector, confirms the strength in the remainder of the local economy and attests to its structural balance. It also suggests that the health of the County's technology industry cannot be characterized by the failures of a small number of firms.

While unemployment has remained low because of the County's strong job growth over the year's first quarter, there are signs that the economy has softened. The first sign of a weaker labor market was seen in February's 22 percent gain from January in initial claims for unemployment insurance. In March, initial claims increased 35 percent from February and are more than double (107 percent) their level in March 2000. While these numbers of newly unemployed workers is not large (548) compared to the increase in new jobs, it does confirm that layoffs are increasing in the County.

Other indications of a softening economy are seen in consumer spending patterns. In March, this pattern was mixed. While retail sales tax collections were up sharply from February, this gain just erased February's decline from January. Compared to March 2000, retail sales tax collections were down slightly (0.4 percent) in March 2001. Sales of "big ticket" items have seen greater declines. New automobile registrations in March were down almost 17 percent from February and were off almost 32 percent from March 2000. The residential market has also experienced a slowdown in sales. While the number of residential building permits dropped 18.5 percent from February, they were slightly greater than a year

Business Cycle Indicators -- Fairfax County, Virginia



Source: Center for Regional Analysis, George Mason University.

ago (1.7 percent). Still, their total value was down on both a month-to-month and monthly over-the-year basis. Actual new home sales in Fairfax County, for the first quarter of 2001, were off 28 percent from 2000. This compares to the metropolitan area new homes market in which net sales were down 19 percent for the same period.

NEAR-TERM OUTLOOK

The National Leading Index has been down in five of the past six months through March and the Washington Leading Index has been down in four of the past six months. While the Fairfax County Leading Index has been down in just the last three months, there is a parallel pattern across these economies that is pointing to a slowdown in the general economy. Slower growth in these economies' leading indicators dates back more than a year and all three indices are currently performing at levels below their historic peaks. At the national level, the economy has clearly followed the lead of its Leading Index. That the Washington area and Fairfax County economies have not yet experienced any noticeable slowdown

compared to the national economy points to the stability of its core industries that have historically protected the local economy from the full force of the national business cycle.

Despite these inherent strengths, the County economy is showing some of the signs of slower growth and its overall growth trend should slow further in the second and third quarters. This slowing will reflect the consequences of lower consumer confidence, deferred retail spending, a weaker housing market, rising commercial vacancy rates and slowing commercial construction, increased unemployment, and uncertainty in the financial markets.

At this time, the strength of the County economy appears sufficient to offset much of the impact of these negative forces. With lower interest rates and the prospects of tax relief at the federal level later in the year, consumer confidence is expected to increase in coming months. By the fourth quarter, the growth in the national economy is forecasted to have accelerated to the 2.5 to 3.0 percent range. If this expectation is fulfilled, the County's economy should also see its leading indicators turning up before year's end.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Mar-01 Prelim.	Feb-01 Final	Mar-00 Final	Feb-01 to Mar-01	Mar-00 to Mar-01
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	135.28	133.90	128.07	1.03	5.63
Leading Index (1987 = 100)	104.72	105.62	107.58	-0.85	-2.66
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	562,906	561,478	526,329	0.25	6.95
<i>Total Covered Employment (Unadjusted)</i>	<i>558,481</i>	<i>554,067</i>	<i>522,192</i>	<i>0.80</i>	<i>6.95</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	441	448	402	-1.53	9.75
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>607</i>	<i>608</i>	<i>531</i>	<i>-0.21</i>	<i>14.34</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,985	7,318	9,017	22.78	-0.35
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>11,274</i>	<i>9,529</i>	<i>11,474</i>	<i>18.31</i>	<i>-1.74</i>
South Atlantic Consumer Confidence	173	175	187	-0.74	-7.23
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,662	6,810	8,309	-16.86	-31.86
<i>Automobile Registrations (Unadjusted)</i>	<i>5,754</i>	<i>5,464</i>	<i>8,444</i>	<i>5.31</i>	<i>-31.86</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,060	785	512	34.94	106.95
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,161</i>	<i>851</i>	<i>561</i>	<i>36.43</i>	<i>106.95</i>
South Atlantic Consumer Expectations	96.5	80.9	114.1	19.28	-15.43
Residential Building Permits (Number of Units, Seasonally Adjusted)	595	730	585	-18.53	1.71
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>715</i>	<i>628</i>	<i>703</i>	<i>13.85</i>	<i>1.71</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	33,565	40,153	37,050	-16.41	-9.41
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>61,949</i>	<i>50,156</i>	<i>65,634</i>	<i>23.51</i>	<i>-5.61</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	583,194	578,182	547,128	0.87	6.59
<i>Total Labor Force (Unadjusted)</i>	<i>576,272</i>	<i>574,562</i>	<i>540,634</i>	<i>0.30</i>	<i>6.59</i>
Unemployment Rate (Percent, Seasonally Adjusted)	0.96	1.17	1.29	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>0.99</i>	<i>0.96</i>	<i>1.45</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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